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NEAR EAST/NORTH AFRICA REPORT

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ALGERIA

MINISTER DISCUSSES PETROLEUM ISSUES

Algiers EL MOUDJAHID in French 25 Feb 81 p 4

[Interview with Minister of Energy and Petrochemical Industries Belkacem Nabi, by A. Zouied; time and place of interview not given]

[Text] A country's independence makes sense only if it is given an economic content. Many events in history have demonstrated this principle which, alas, is still suffering serious distortions, which are prejudicial to the peoples of the Third World, in Africa, Asia and Latin America.

To illustrate with facts, especially the nationalization of hydrocarbons on 24 February 1971, Algeria, one recalls, ran into a "blockade," into haggling and a virulent campaign of hostility on the part of French colonialist circles and world capitalism for the purpose of forcing it to go back on its decision, which in their eyes was a "dangerous example." Who knows better than the Algerian workers the fierceness and intensity of the ensuing battle for oil--waged head-on and tenaciously, so that our independence will not be a hollow word?

Who knows better than the Algerian people the heavy tribute it has paid in blood so that the Sahara that harbors its wealth will continue to be an integral part of our national territory?

It was, therefore, at the price of enormous sacrifices that Algeria placed all the strategic sectors of the national economy under its direct control and gave its utmost to the exercise of its rights and its sovereignty over its natural resources.

From its historical experiences Algeria today derives its profound conviction that without control over the whole of its economy and the foundations upon which it rests, it would never have envisaged the development objectives it set in the five-year plan, nor would the country have been industrialized, nor would it have had the benefit of the effects of the petroleum activities.

The various petrochemical, metallurgical or mechanical complexes, as well as the many developments throughout the national territory, are the living expression of that economic independence which in the final analysis is aimed at promoting man and raising his standard of living--in a word, guaranteeing the present and future of our people.

The position Algeria holds today in the conduct of the national economy, mainly in the development of its natural wealth, must be further assured and strengthened by work and productivity.

In this respect, Algeria is still duty bound to take up the challenge of gas against partners long accustomed to monopolizing the resources of the peoples of the Third World, which inexorably started the process that is putting an end to the exploitation of which it is the object.

Although the validity of its step and its demands is admitted and sanctioned, divers obstacles stand in the way of increasing the value of Algeria's gas.

In any case, as Nabi Belkacem emphasized, the conviction is that the gas we will not have exported today at a price below cost will sell tomorrow at a more equitable price.

Also, when all is said and done we are led to believe more than ever that genuine co-operation cannot really be established between the north and the south unless a new international economic order is established.

The preponderance of these strategic problems combined with the topical ones led us to raise them with our minister of Energy and Petrochemical Industries, Belkacem Nabi, who answered willingly during the interview he granted us on the occasion of the double anniversary of the founding of the UGTA [General Union of Algerian Workers] and the nationalization of hydrocarbons.

[Question] Mr Minister, what lessons have been drawn from the debate among the rank and file and in the Central Committee of the FLN Party concerning the destiny of the energy sector?

[Answer] The discussion of the energy dossier that began in the rank and file and culminated in the debates in the FLN Central Committee has certainly been rich in lessons and has, moreover, resulted in important decisions being taken by the country's highest authorities.

The first and most important lesson is that now there is developing a national awareness of the close interdependence that exists between the success of a national energy policy and the success of the battle for production and productivity.

What makes it possible to measure the evolution accomplished during the last decade is that the terms of that interdependence are reversed today, with the experience of a colossal investment effort.

The initial basis on which our development strategy was drawn up and put into operation consisted 10 years ago of building a production apparatus that would be in a position to furnish a proper development dynamic from resources drawn from increasing the value of hydrocarbons.

Huge productive structures now exist. The requirement of the new decade is to make it so that by increasing their efficiency it will become possible to lower the relative weight of hydrocarbons in financing the economy.

This is in fact reaching alarming proportions. Ninety-eight percent of the foreign currency resources of the country and 60 percent of the permanent income of the public treasury come from exporting oil and gas, in other words the exploitation of non-durable resources.

These facts force the truth on us. The national production apparatus whose realization absorbed almost 50 percent of the recoverable oil reserves, must take over today so that to begin with, we can limit our imports with the idea of assuring our development later on, and more particularly our acquisitions of equipment goods, technology and services, based on the results of the productive effort of the country's workers.

Having said that, the second lesson to be learned is that increasing the value of our natural resources is still more than ever on the agenda in the battle for gas that has been engaged in for over a year.

The nationalization of the country's gas resources was an act [words illegible] that was paid for dearly: to guarantee its scope, increasing the value of our exports is an indispensable action that must be successful. Although in the domain of oil Algeria's action in OPEC, despite the resistance of some members of that organization, made possible a readjustment of the purchasing power of the barrel, which went from some \$14 in February 1979 to over \$40 today, it is not yet the same for natural gas.

Pressure has been exerted on Algeria to force it to accept prices and ways of calculating prices unrelated to the perceptible evolution of the world energy situation.

But the heavy investments realized for exporting liquid methane, amounting to more than \$6 billion, do not constitute a powerful enough constraint to make us give in to that pressure.

For the other fundamental fact to be taken into consideration in order to hold out and to maintain our determination is that the conditions under which the other exporters of natural gas are accomplishing their commercial transactions are improving every day.

Today there is taking shape an evolution in the international natural gas market that is gradually overturning the balance of power to the advantage of the exporting countries, and which, from an historical point of view, includes--more every day--the legitimacy of our proposals aimed at further increasing the price of natural gas.

The energy policy debate has made it possible to take note of these facts and gain the unanimous conviction that the gas we will export today at a price below cost will sell tomorrow at a better price.

As for the rest, the price structure for petroleum products, the choices of technological equipment and transportation, the recycling of used products, they were mentioned in several debates at the rank-and-file level and they are certainly focuses for work to be taken into consideration this year, to promote a rational policy for utilizing our energy resources.

Outside of the need to experience at all levels the development of other energy sources (such as solar, nuclear, etc.), it should be pointed in the last analysis that on several occasions there has been found to be sensitivity as to the role of national cadres in gradually taking over from the foreign cooperants we are using.

Of course the energy sector is a sector in which the technologies that have been put into operation require a solid training and often broad experience, but it is still

nonetheless true that increasing the responsibility of the national cadres should make it possible to lower temporarily the level of technical cooperation to whatever is strictly necessary.

[Question] Concerning restructuring the national gas and oil sector, exploiting the industries down the road, where do these developments stand?

[Answer] The restructuring operation that was launched in the energy sector and the petrochemical industries, just as in the other sectors of the national economy, are a necessary updating of the organization of our productive machinery.

In their present structuring, our businesses correspond to a bygone stage in the economic development, in which what prevailed was the vital concern with having suitable tools to assure the transfer to the state of the activities of foreign firms and to take charge of important investment programs.

Today our firms have to reorganize to respond to new demands--control of management, satisfying social needs and increasing the value of productive work.

So restructuring is not an immaterial activity. It is historically dictated by qualitative change in the national economy and the defining of new objectives connected with a new stage of development.

The accomplishment of this task is at an already advanced stage in the conceptual plan for the energy sector and the petrochemical industries.

The sectoral committee created to take charge of it had more than 300 management and labor union cadres take part in drawing up proposals that will be studied continuously by the national restructuring commission presided over by the minister of Planning and National Development, before being submitted to the government.

These proposals concern, not only the new organization of the sector, but also a whole series of accompanying measures, concerning in particular the maintenance of the production machinery, setting up structures for development that now make possible acquired experience, strengthening of the methods of study and technical design of the projects, and on the human level, continued training on the work site and in institutes and the Algerianization of management manpower.

[Question] Several partnership agreements have recently been concluded with foreign oil companies. Is there reason to be satisfied with their entry on the scene in exploitation in Algeria? Also, what is their impact--produced or expected--on the development of hydrocarbons exploration, in the interior of the national territory as well as in the exclusive economic zone?

[Answer] The Central Committee of the FLN in its resolution on the national energy policy stressed the necessity to intensify hydrocarbons exploration for the purpose of expanding our knowledge of the reserves contained in the Algerian subsoil.

This task is being accomplished as a priority by SONATRACH, and the program assigned to it in this context by the Five-Year Plan is an ambitious one.

Recourse to international cooperation is conceived of only as a complement to the main effort entrusted to the national structures.

The agreements that were recently signed with foreign oil companies are being given their initial execution today, since the first stage planned is aimed at collecting all available information on the areas concerned, for the purpose of dealing with them again with new methods.

These projects, which constitute the program for the current period as well as relations between SONATRACH, which controls this operation, and the foreign partners, are unfolding in an atmosphere with which there is reason to be pleased.

The intervention of the foreign partners, who may be operators on some parcels, would basically not take place until 1982, under national regulation and legislation.

We will have to wait to pass judgment on the prospects for this cooperation, until we can evaluate the reality of the technological transfer it may contribute, which we hope will be significant.

[Question] Another aspect of our international cooperation: it was decided in Algiers at the African ministerial conference of OPEC to supply oil as a priority to the African countries, in the light of the Iran-Iraq conflict. What concrete follow-up has there been? In general, what is the contribution of Algeria, in the energy field, to promoting cooperation with the Third World countries and especially with the neutral Western countries?

[Answer] Algeria has taken initiatives in the matter since the end of 1979. It was Algeria that proposed the creation of a Third World bank.

This bank was to be endowed with important means commensurate with the mission that was to devolve upon it. In particular, it was to be commensurate with taking charge of the problems of balance of payments of the most deprived countries, to facilitate their being supplied with oil. It was also to promote more widely the development projects that would make it easier for developing countries having hydrocarbon potential to realize energy self-sufficiency.

Since then the decision to create such a bank has been postponed, but the project is still under discussion in OPEC. Moreover, there is seen to be an evolution of ideas in the direction of a more favorable reception of the project than in the past, which may augur well for a positive decision in 1981.

Along with that initiative, Algeria proposed--and has set up in the meantime--a measure intended to give priority, in case of a shortage, to the supply needs of Third World countries.

It is in this context that Algeria today is supplying a dozen African countries essentially, but other continents, too.

Concerning our exchanges with other nations, whether socialist countries or neutral Western countries, they are experiencing certain development.

[Question] Taking into account the qualities of gas (cleanness, flexibility, high calorific content), particularly the investment required for its liquefaction, the necessity to increase its price was firmly underlined by the party's higher-ranking authorities. In regard to this, where do the negotiations stand that have been engaged in with Algeria's gas partners?

[Answer] As you know, Algeria has undertaken the renegotiation of all gas supply contracts linking SONATRACH with its customers.

The proposals made by our country concern the price level and the ways to increase it.

With regard to the price level, Algeria is asking that its exports not be paid for at prices different from the prices on the international natural gas market.

We don't see any reason to accept a price for the calorific unit of exported natural gas that is lower than the prices realized by other countries that are exporting liquefied natural gas or natural gas by means of a gas pipeline.

Our wishes in this connection have been confirmed several times by the country's highest authorities, and the decisions of the Central Committee of the FLN, notably in its second and fourth session, are clear on this subject.

With regard to the ways to increase the prices of natural gas, we don't think it is in the interest of the consumer countries holding long-term supply contracts to continue to demand unilateral control over the price of Algerian gas exports.

Their supply security must be linked to our development security through prices fixed by the international natural gas market and not in the light of internal tariff decisions in each consumer country.

This position expresses a principle of our hydrocarbons export policy, which consists of considering natural gas an /energy product/ [in boldface] and not an /industrial product/ [in boldface]. This concept makes it possible to define the assessment criteria for choices and arbitration at the time which will be relative to exploiting the /non-renewable natural resources/ [in boldface].

The stake is a sizable one to the extent that the price of gas now constitutes an additional factor toward a coherent international strategy for us.

Your question gives me an opportunity to make the point on the state of advancement of the negotiations with our various partners.

With regard to renegotiating the supply contracts with the United States of America, there is reason to distinguish the El Paso case from the other two Trunkline and Distrigas contracts.

For the first contract, deliveries of which are being interrupted, the negotiation took place first of all at the level of the two countries concerned, that is to say El Paso and SONATRACH.

The El Paso Company very quickly let SONATRACH know how impossible it thought it was to negotiate a price. Any agreement on this point should be submitted afterwards to the approval of the American authorities.

This is how, at the request of the US authorities, Algeria agreed to carry the negotiation to the level of the two administrations without prejudging the responsibilities of the contracting companies.

After seven sessions, which took place alternately in Algiers and Washington, the negotiations were interrupted, at the request of our partner.

/That's a new fact and we are now in the process of examining the consequences that should be deduced from it at the government level./ [boldface]

With regard to supplying the French market, there too, although the positions have become closer, problems remain. They are much more concerned with the ways of applying the principle of the parity of the oil calorie and that of natural gas.

With Italy, negotiations are going to begin, as a result of my trip to Rome from 5 to 7 February of this year, at the level of the two governments.

I have noted in the political leaders I have had occasion to meet with a real desire to quickly find a solution, in order to update the methods of exporting 12 billion cubic meters intended for the Italian market.

For the other contracts, negotiations are in progress and the differences that separate the positions are shrinking day by day. And we have concluded a contract with the English that sets the average price for the first 9 months of 1981 at \$4.60 per 1 million BTUs [British thermal units].

[Question] On 22 January 1981 the Mediterranean section of the Algerian-Italian gas pipeline was completed. When will it be put into service and what effect will it have on the liquefaction of gas?

[Answer] I just mentioned in the preceding question the only problem that is still in abeyance in preparing for the inauguration of that project.

It will probably go into service next October.

That is an important event and we are preparing for it.

[Question] The Beni-Mered central logistical base recently accomplished a feat in repairing the compressor of the Bethioua liquefaction plant, thus confirming our country's technical and human capability. Can we expect such preservation of our investment to be systematized by increased mastery of the functions of engineering and maintenance?

[Answer] The Beni-Mered central logistical base represents a sophisticated and very valuable instrument in the sector. It is an appreciable initial asset for putting in place a coherent maintenance policy.

In particular, the example it furnishes us in the technology acquisition code by the presence in Algeria of foreign technicians initiating our national cadres on the worksite, the opposite of the usual practice of Algerian cadres going abroad for training, is something to think about, so that similar experiences can be repeated.

But what is essential to grasp concerning the functions of engineering and maintenance is that it takes a long time to acquire mastery in these fields, and patient human investment is required.

[Question] An information and cultural organization committee has just been created in the Energy and Petrochemical Industries Ministry. What impetus will it give to the information policy so much anticipated by the national press and to which you are devoted?

[Answer] The creation of an information and cultural activities committee is aimed at accomplishing three objectives that are essential for good management of our sector.

To expand the debate on the fundamental problems of the energy and petrochemical industries sector.

To fight the maneuvers of the powerful foreign information media controlled by the transnational firms that do not hesitate to exert various pressures, in order to weaken our positions in the negotiations or international discussions.

Thus the committee will be able to participate, following the directions and strategy defined by the specialized organisms of the Information and Culture Ministry, in this battle, which has been going on for so long at the international level.

And to contribute to improving the living conditions in the southern foothills by promoting the development of cultural activities.

When all is said and done, this initiative boils down to expressing the importance of communication and its strategic role in management.

[Question] Finally, would there be any other aspect that should be brought up in this interview?

[Answer] For some time a number of specialized journals--some calling themselves friends of Algeria, others notorious for their connection with the multinationals--have been leaving no doubt in anyone's mind as to the financial situation of the country and especially as to the need for additional revenues from natural gas to satisfy our development needs. It is only a step, which is quickly taken from there to affirming that Algeria has a gun at its head in the negotiation . . . is conducting on gas.

It should be affirmed here that Algeria, since independence, has never experienced such a comfortable financial situation. Revenues from exporting natural gas have until now accounted for a marginal share of our foreign currency resources.

The government has decided to regularly conduct a diminution of our exports so as to prevent a situation of financial surplus.

We are not anxious to export Algerian oil and gas in order to hoard money in the accounts of foreign banks, and the level of our exports will be in conformity with our strict financial needs.

This explains the voluntary diminution of the oil production level, in conformity with the decisions of the Central Committee of the FLN in its fourth session.

As for the rumors that are circulating concerning a claimed abolishing of the surcharge demanded of our customers to develop an oil and gas exploration effort that

will make it possible to renew the destroyed reserves, these are the rules, and if we wanted to sell 40 million additional tons, everyone knows we would have no trouble finding buyers.

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SARKIS SPEECH AT ARAB SUMMIT ANALYZED

Paris AL-NAHAR AL-'ARABI WA AL-DUMALI in Arabic 9-15 Feb 81

[Article by Nahad al-Mashnuq: "Palestinian-Lebanese Relations; Arab Moderatism vs. Lebanese Extremism"]

[Text] It is said jokingly that the son of a Lebanese Front official returned from his school one evening and told his father: The history professor taught us today in class that Lebanon gained its independence during the term of Shaykh Bshara al-Khuri, and during the term of President Kamil Chamoun, the 1957 revolution occurred, and, as for President Fu'ad Shahhab, his term was marked by the independence of the country and its institutions. After him, President Charles Hlu signed the Cairo agreement laying out the relations between Lebanese authorities and "Palestinian resistance." Then President Sulayman Franjiyah came, ending his term in a war with tens of thousands killed and wounded. But the professor did not explain to us what President Elias Sarkis did during his 4-year term. Can you inform me about this subject? The end of the story is that the father could not find an answer for his son.

Many Lebanese found an answer to this and many other questions in President Sarkis' address in Ta'if, keeping in mind that other political authorities found in the stand taken by the president of the republic's address a bias towards the philosophy of the "Lebanese Front." This is an accusation previously directed at him by the same authorities on every occasion. It can be said that President Sarkis has decided at the end of his term that he has a political conviction to take, upon which he will succeed or fail. This does not mean that President Sarkis' political conviction was found in his speech in Ta'if, but it is an indication that the president has overcome the philosophy of "resistance, patience and silence." Is President Sarkis succeeding in this conviction?

There are three main points in Sarkis' speech in Ta'if. The first is that it is not possible for this explosive situation to leave Arab countries untouched, but rather it is inevitable that this outburst will affect them. The second point is the excesses of "Palestinian resistance" and its failure to abide by the agreements reached with Lebanese authorities. The third point is a call to the opening of Arab fronts along Israeli borders in the presence of fedayeen action instead of leaving Lebanon by itself to bear the effects of its front to the south, open to Israeli aggressions which destroy its cities and drive away its people.

The first and third points pleaded for the Palestinian delegation at Ta'if to remain silent on the second point. For the Palestinian-Lebanese outbreak in Lebanon and, subsequently, preparations for it, is shared by both sides. Likewise, is not the call to open Arab fronts in the presence of Palestinian action closer to the Palestinian policy which calls for Arabs to bear a common military responsibility in resisting Israel.

Therefore, Yasir Arafat preferred not to comment on President Sarkis' speech, being convinced that the Lebanese president "charged the resistance with excuses for Israeli aggressions in the south, without concentrating on Israeli expansionist goals in the south and its ambitious desire for the waters of the Litani." When those close to President Sarkis were confronted with this statement they assured that the address did not contain anything new except his [Sarkis'] frankness and the place where the address was given. The address appeared as if it were a new position for the president because it was given at the Islamic summit and attended by such a large number of Arab and Islamic kings and presidents. The contents of the speech, however, were re-iterated from previous speeches of President Sarkis, the latest of which was his annual speech in front of the diplomatic corps in Lebanon. They added that the importance of this speech is in the possibility of realizing its significance at the level of Lebanese-Palestinian relations on the one hand, and Lebanese-Arab relations on the other. They assured that the address was not a final step but rather the first station along the road of the political conviction of President Sarkis.

But What is the Second Station?

The visit of the minister of Foreign Affairs, Fu'ad Butros, to Damascus is not the second station except to the extent that it pertains to rectifying Lebanese-Palestinian relations. Lebanese authorities deal with the Syrians whenever they are mistaken in thinking that the Syrians are the doctor for the sickness in Lebanese-Palestinian relations--in spite of the fact that the competence of this doctor is of no use for the sickness. It is not because Damascus does not wish to rectify these relations, but rather because the political situation in the Middle East and all the types of regional and international political settlements make it difficult to request the resistance to grant concessions from the gains it has achieved, when it has suffered throughout the war years in the south and in the main cities.

Kurt Waldheim, secretary general of the United Nations, replied to the Ta'if summit, speaking of the possibility of separating the Lebanese crisis and the Middle East crisis, in his speech on linkage of these two crises.

But this discrepancy does not exclude Syria, if it has an interest, from achieving a partial easing of tensions in Lebanese relations. But Syria remains temporary and temporal, causing more complications after passing. The traditional philosophy of both sides will collide in any dialogue between Lebanese authorities and Palestinian leadership.

The Palestinian side will answer Lebanese requests to implement the agreements by saying that the current geographical and political nature of the south does not

permit the implementation of the agreements, and that any change in this situation, including militia units along the border, is an Arab responsibility, not Palestinian or Lebanese.

Its answer to the second request pertaining to camps in the cities and heavy weapons is that the "resistance" defends itself from attacks from inside and outside. Likewise, as regards the shelling of Israel from the south, there is nothing, in the opinion of the resistance, that proves that this would be a beginning to a cease fire; they may need to respond to sources of fire upon them from Israel and the border areas.

Infiltration operations from southern Lebanon to commit terrorist acts is the only issue subject to negotiations, as it seems. And the result?

Nothing. For time has shown that Palestinian moderation in dealing with current Arab realities has its price in allowing extremism in dealing with the Lebanese situation. The second step of President Sarkis will not be an Arab one in any case.

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LEBANON

DETERIORATION OF POLITICAL SITUATION SEEN

Paris LE MONDE in French 18 Feb 81 p 6

[Article by Lucien George, LE MONDE correspondent: "The Situation is Deteriorating Slowly but Inexorably"]

[Text] The situation in Lebanon is deteriorating slowly but surely. Even though the troubles have not increased to such an extent as to become front page news--a large number of deaths is needed before Beirut is granted this sad privilege--the occurring incidents seem sufficiently significant and their political context sufficiently threatening for the Lebanese to be worried despite their being accustomed to all forms of violence.

The Mohayssen affair, named after the Jordanian diplomat who was kidnapped more than a week ago and has still not been found, is unquestionably the most serious element of the current tension, for, in terms of the Lebanese government, it has been translated into Syrian threats which, even though indirect, have been quite clear. The pro-Syrian faction of the Baath Party in Lebanon leveled last Wednesday severe charges against the Beirut authorities, focused on Fu'ad Butrus, minister of foreign affairs, but in fact aimed as much at Elias Sarkis, president of the republic, and at the armed forces. They were blamed for giving credit to the idea that Damascus was responsible for the kidnapping and for pretending, yet once again, that a security plan is being implemented by deploying the Lebanese army instead of the FAD, something which is opposed by Syria.

The pro-Syrian Baath calls upon Mr Wazzan, who is head of the government, and who is a Sunni Muslim, "to follow the national current.... or else to resign."

At the same time, Wazzan was given a similar warning by the Islamic Rally to which he belongs and by the Front for the Safeguard of the South, which, after noting that the country is subjected to "hesitation, erosion, authoritarianism and partiality," demands of the government in power (i.e., of the chief of state) "to resume the proper way before it is too late." The National Movement (progressive pro-Palestinian) was the first to attack the head of state and the government and has been repeating its attacks on an almost daily basis. The opposite camp, that of the Lebanese Front (Christian) seems satisfied without, however, extolling Bashir Gemayel, commander of the Lebanese forces, who quite recently was the main harasser of Mr Sarkis but whom he met on four different occasions. It is thus that, in addition to the old charge of indecision, the president of the republic is now being accused of being partial to the Christian camp, essentially as a

result of his speech delivered at the high level Islamic meeting in Taif, where he had frankly described the problems which Palestinian resistance create for Lebanon. At that time he had enjoyed the tacit tolerance of Syria which was going through a period of strained relations with the PLO. However, were Syria to become involved and should President Sarkis lose a government which took 5 months to organize, the president would come even closer to a state of total impasse and Lebanon to a state of paralysis.

The Arena

At this point, Beirut is aware of the difficulty of forming governments which, paradoxically, have set longevity records since 1976, i.e., since the country found itself in a state of permanent crisis. What makes the situation even more critical is that, according to President Sarkis' analysis of the repercussions of the Muhaysen affair, Lebanon is experiencing the erosion of its "international credit." In any case, the Lebanese quite clearly feel that an eventual resurgence of their crisis would trigger little interest in the rest of the world. They feel that their country has become an arena for Syrian-Palestinian-Israeli confrontation, with Arab ramifications, involving Syria and the PLO rather than Lebanon, the Syrian-Israeli air fights being the most spectacular manifestation of the confrontation. The south has become a center of forgotten yet, nevertheless, purulent violence.

However, a resumption of tension in Beirut appears to be the most likely factor for an accentuation of the deterioration of the situation. In addition to the ritual night fights in the downtown wrecks, which no longer excite anyone, and of all sorts of account settling and crimes (a bomb was diffused at the last moment at the airport on Friday), for the past two months there has been a resurgence of trouble at Sodeco, one of the two intersecting crossing points, which has been actually virtually closed down since the beginning of the month. In practical terms, there is only a single junction between the two sectors, as was the case in the 1975-1976 war.

Finally, it has been noted that Beshir Gemayel has instituted military training in the schools in the Christian sector with a view to staffing his militias who were renamed Lebanese Forces. The announced purpose was to develop a reserve corps of 17,000 young people. The reaction of the National Movement was a threat of similar mobilization in its own sector, even though it appears far less capable of doing so.

All this might have been considered as no more than additional elements in the breakdown within the state of violence which has prevailed for many years. The fact that Elias Sarkis' presidential mandate comes to an end on 23 September 1982 adds to the situation a dramatic backward touch. The ever more topical question, as the term draws near its end, is not so much to know who will succeed Mr Sarkis but whether he would be succeeded at all. Furthermore, if he is not, the question is whether Lebanon will explode and what kind of violence will precede and parallel this explosion?

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LEBANON

EEC URGED TO EXPAND COOPERATION WITH LEBANON

Paris AL-NAHAR AL-'ARABI WA AL-DUWALI in Arabic 9-15 Feb 81

[Article by Mishal Marqus: "Cooperation Between Lebanon and the European Market; Its Right and Duty"]

[Text] Next week a Lebanese delegation representing various economic sectors will visit Brussels (Belgium) to conduct negotiations with officials of the European Common Market.

The delegation will include: the minister of Justice, Khatchig Babikian, in his capacity as the former president of the Administrative Actions Committee; the president of the Chamber of Commerce and Industry in Beirut, 'Adnan al-Qassar; the president of the Lebanese Manufacturers Association, Doctor As'ad Sawaya; the president of the Farmers Union and former minister, Fu'ad Najjar; the president of the Merchants Union, Victor Qasir; the permanent secretary of the Manufacturers Association, Mr Nabil al-Ladhiqi; and Mr Andre Nadir. These men will examine the areas of cooperation between Lebanon and the European Market, each in his respective field.

The idea [for the conference] came about when the president of the European Market's Supreme Council, Mr Chi'son, visited Lebanon last year to look into the possibilities of expanding cooperation. He noticed that the agreement between Lebanon and the market which was signed in 1977 had not been completely adhered to. In April, 1980, the president of the Beirut Chamber and his deputy and member of the Chamber, Mr Rafiq al-Nassuli, visited officials of the European Market in Brussels. There they conducted preliminary discussions in which the Lebanese ambassador to the market, Doctor Joseph Donato, participated. Qassar also attended the first meeting of the European-Arabic Cooperation Committee on 6 June 1980, and coordinated this visit.

In the beginning of January last year, the market's representative in Lebanon visited the heads of the economic associations, calling for them to conduct discussions dealing with various areas of cooperation. Lebanon had begun negotiations with the European Economic Community since 2 October 1976 which led to the signing of the first agreement concerning commercial exchanges and technical cooperation on 21 May 1975. The agreement was only a trade agreement clearing the way for an agreement on trade relations on a most-favored party status. As

for the section dealing with technical cooperation, it forms a new course for the European Economic Community's foreign relations. The Community's member nations abstained from the issue of cooperation because it did not have a budget.

In October, 1969, the Lebanese delegation announced to the board of the European Economic Community and its committee the desire of the Lebanese government to negotiate a preferred-trade agreement, which was signed on 18 December 1972. Another protocol was signed on 3 May 1977 specifying that Lebanese manufacturing products would be exported freely, exempting all but a few products from customs duties.

The agreement includes a document pertaining to participation in the growth of Lebanon economically and socially, stating, "The Community will take part, within the technical and financial framework of the agreement, in financing activities to aid in the growth of Lebanon economically and socially." This will come about through the financing or a share in financing of investment ventures in production areas and in building up the economic structure, aimed particularly at diversifying the Lebanese structure, especially by strengthening its industry and stimulating the agricultural sector.

In accordance with this agreement the Economic Community concluded a financial protocol with Lebanon to the amount of 30 million European monetary units (140 million Lebanese Lira), and granted Lebanon a 20 million European monetary unit (84 million Lebanese Lira) special loan from the European Investment Bank (the value of the European monetary unit is measured in gold, with each unit equal to .8887 grams of gold). This is in addition to the aids provided by the Community whose value came to 7.99 million monetary units between 1970 and 1976, and the emergency food aid in 1976 which came to 10.28 million monetary units, in addition to financial aid coming to 400,000 monetary units.

As for the protocol for the 30 million monetary unit loan, it was raised to a 50 million monetary unit emergency loan granted by the European Investment Bank for investment. Twenty million of this was extended in view of the latest events.

The 30 million monetary unit loan and projects earmarked for it:

Project	Monetary units
Jaya electrical station project	5,000,000
Zarq electrical station project	15,000,000
Special loans and proceeds	2,400,000
Customs services regulation project	640,000
Vocational training	700,000
Industrial surveying	500,000
Aid for agricultural cooperatives	3,000,000
Integrated project for Southern Lebanon	2,000,000
Project to re-establish small institutions	250,000
Data bank project	100,000
Accounting project	100,000
Housing project	to be examined if funds remain

Re-establishing the stock exchange	200,000
Other projects (peoples' market)	120,000
Total	30,000,000

The most important projects of re-construction which Lebanon presented to the Economic Community and the price of each in millions of Lira:

Project	Price (millions of Lira)
Re-constructing the commercial	900
Re-equipping Beirut Airport	600
Repair and re-construction of the port	258
Project for Jaya electrical plant	285
Project for Zarq electrical plant	350
Water projects for the Litani, Jabal 'Amil, al-'Asi, and expenses for damages	332
Road network	1,092
Telecommunications	740
Housing project	2,500
Financing the private sector	3,000
Total	10,112

The Lebanese foreign ministry submitted a bill during the second half of last year stating that "the provisions concluded under the 20 million European monetary unit loan have been faithfully executed, and Lebanon hopes to use the remaining 30 million units in expediting the progress of the Lebanese economy. The aids and loans totalling 80 million monetary units will help to meet the damages and losses resulting from the incidents, which were estimated at 150 million Lebanese Lira, or 3.3 billion European monetary units.

As a result of the enactment of the economic provisions of the agreement, there was a deficit in the trade budget for the first half of the 1970's. The deficit increased in the second half of the decade, with imports and exports as follows:

Year	Market Imports (Millions of Dollars)	Exports to Lebanon (Millions of Dollars)
1970	261	46
1971	333	92
1972	432	85
1973	588	110
1974	928	152
1975	778	28

With the exception of 1975, Lebanese imports from the market rose by 255 percent in the aforementioned 4 years, as opposed to a 137 percent increase in Lebanon's exports to the market.

So Lebanon wants to re-balance its budget with the market by obtaining better facilities and expanding cooperation with the market.

9785

CSO: 4802

PROBLEMS OF LEBANESE INDUSTRIAL SECTOR ANALYZED

Beirut L'ORIENT-LE JOUR in French 27, 28 Jan 81

[Article by Dr Andre Chaib, professor of economics at the American University in Beirut: "Problems of the Industrial Sector"]

[17 Jan 81, p 2]

[Text] In his first article published yesterday, Monday 26 January, Dr Andre Chaib, professor of economics at the American University in Beirut, described the origins of the industrial sector in Lebanon and its ideal dimensions. In the present article the author considers the cyclical and structural problems of Lebanese industry. His next article will deal with its future prospects.

Unquestionably, the Lebanese industry may be credited with the most remarkable and most prestigious economic success achieved in Lebanon over the past 20 years. This has been the result of the success achieved in its rapid development, improvement and diversification of its products, its ability to impose its presence in the local and foreign market, in the face of international and frequently merciless competition, its ability to withstand the crisis of recent years without falling prey to thousands of dangers and misfortunes of war, insecurity and political instability, and, finally, for displaying the signs of renovation and of confident optimism.

Our industry owes its successes to a large number of human, historical and economic factors, which most certainly include the essential fact that it developed without any public aid or intervention or any attempt to inflate it artificially. Having been forced to face since birth the storms of international competition, it was able to surmount them within a short time while developing a remarkable immunity to shocks of all kinds and, apparently, to most unexpected political cataclysms.

Cyclical Difficulties and Structural Problems

One may ask, what about the multiple difficulties it has been forced to face over the past few years? Even before undertaking their study, we should point out, in this respect, that the problems facing our industry are of several different varieties and that the only feature threatening the future of the industrial sector (which, consequently, should become the focal point of economic thinking) is that of structural problems, problems related to the basic structures of the

national industry and its general orientation and development of the goods it offers in the domestic and international marketplaces. The cyclical problems, those which originate, for example, from the common happenstances in economic life, are "natural" problems which may be found not only in industry but in all economic sectors, in Lebanon or anywhere else. Therefore, it is entirely normal for an industry to have to surmount once in a while a decline in demand, an increase in the cost of one production factor or another, or the appearance of a new competitor.

It is clear that, to a large extent, the problems facing our industry are of this nature. Therefore, we shall not dwell on its cyclical problems but shall try, conversely, to identify the structural difficulties within our industry while trying to determine the extent to which the catastrophe of recent years has contributed to the exacerbation of such problems.

A recently conducted investigation involving some 100 Lebanese plants and with the effective participation of my students at the American University in Beirut has made it possible to narrow the problems. We shall discuss here, in sequence, problems of labor, export markets, insecurity and political instability and, finally, the financing of the national industry.

The Labor Market

More than half of the enterprises we surveyed complained of the difficulties of finding and keeping skilled personnel. Naturally, added to this problem of labor scarcity are a number of problems related to manpower which is currently operating in our plants; such problems involve transportation, discipline, political interference, technical deficiencies, or quite simply material demands which heads of enterprises deem unjustified.

We try to remedy the labor problem as much as possible by resorting to the use of foreign manpower. Such attempts frequently fail, above all by virtue of the strict laws governing imported manpower and the number of existing social restrictions. Thus, close to 80 percent of the investigated enterprises try to employ at least 90 percent Lebanese manpower; generally speaking, the foreign workers are paid equal wages (in 70 percent of the cases under consideration).

Furthermore, the industrialists we investigated consider that, generally speaking, wages are too high. In fact, in 90 percent of the cases the annual salary averages were above the 1974 level, even though 55 percent of the investigated enterprises are using far less workers than they did on the eve of the war.

Let us emphasize in this respect that the notion of "high salary" is quite relative and that, in the final account, a salary can be measured only in terms of the productivity of the worker. Thus, the same wage paid to two workers, one of whom is a skilled technician, while the other is an untrained beginner, would be certainly higher in the case of the beginner.

Apparently, however, that is precisely what is happening today in our plants: unable to employ an adequate number of skilled workers (who are generally

attracted by the higher wages paid at the Gulf (or elsewhere), our plants must frequently use underskilled personnel whose wages must be raised regardless of any productivity consideration, by virtue of a number of political or social reasons.

Evidently this is a major dilemma facing our industrialists: unless they pay salaries comparable to those of the Gulf countries, they will have to resign themselves to paying "too much" to workers with inferior training.

Obviously, in a number of cases such personnel is given on-the-job training (60 percent of the investigated plants stated that they set up training "programs" for their workers); however, taking into consideration the frequently limited number of employees, the many pressures applied on the enterprises by the market, and the many problems which their heads must resolve on a daily basis, we may surmise that in the majority of cases such training is rather modest.

In any case, it seems inevitable that the current restraints imposed on the labor market, only partially due to the war, for the temptation which the Arab labor markets offered existed before 1975, would end up by determining the development of the very structure of our industry. Rather than continuing to struggle with all these problems, our industries may opt for greater mechanization. Apparently, this is something which they already engage in whenever the opportunity presents itself.

Therefore, the problems raised by the scarcity of skilled personnel and by the "expensiveness" of the current personnel are closely interrelated and are linked with the future structure of our industry. Therefore, we must think in terms of an overall solution.

The Export Markets

Just like the labor problems, the problems related to the marketing of industrial output originated in the golden age which preceded the war. Starting with 1974 one could have noted, theoretically at least, that (except for major attempts at market diversification) the Lebanese industry was running the risk of losing in the long term its export markets, starting with the point when importing countries, predominately the Arab Gulf countries, would become able to produce themselves goods which they had been purchasing from Lebanon for many years.

The two-year war seems to have contributed to the hastening of the process of the erosion of our foreign markets, first of all by contributing to the establishment of our competitors and, subsequently, by allowing the Arab industries to catch up with some of the technological advance we had (and still have) over them. Close to 50 percent of the investigated enterprises claim, in fact, to have lost export markets to their main worldwide competitors as a result of the war.

Actually, in most cases, these competitors are countries which, ten years ago, had reached development levels similar to ours but which, since then, have been able to gain a certain ground: Greece, Spain, Cyprus, and the countries of

southeast Asia, in addition to some developed Western European countries such as Italy and, on occasion, some Arab countries.

Naturally, our industrialists are continuing to export a high percentage of their output: more than one-third of the investigated enterprises export at least 50 percent of their output. However, such markets are becoming ever more concentrated geographically and, therefore, more precarious: Libya, a major importer of Lebanese products before the war, is now a minor client; Jordan, which in 1974 purchased 6 percent of its imports from Lebanon, purchased no more than 3 percent in 1977; finally, Saudi Arabia is alone managing to purchase over one-half of our industrial exports.

One-third of the industrialists we asked claimed to be exporting between 10 and 15 percent of their output: before the war one-half of the same enterprises were members of this group. Asked whether they feared the loss of their export markets in a few years, 25 percent of the enterprises answered in the affirmative. Finally, asked what chances they had to survive the eventual loss of such markets, 25 percent of these enterprises answered that they were infinitesimal.

Everything seems to indicate that we are slowly but quite probably following the way of the long-term suppression of our export markets. The continuing success of some of our industrialists in some Arab markets should not let us ignore the distant future. Conversely, they should encourage us to formulate as of today a coherent foreign trade strategy.

Insecurity and Instability

Naturally, all these problems are eclipsed by those raised by the general condition of political insecurity which, while not preventing their functioning, seems to threaten quite seriously our industrial enterprises. It is astonishing, however, that only 40 percent of the investigated enterprises considered insecurity a major problem. Let us note in this respect that it is less the current insecurity than future insecurity which should concern the industrialists. Obviously, the current insecurity raises a number of problems such as moving difficulties (of personnel or goods), new requirements related to political protection and support, and the slowdown of output. However, the insecurity of the future is a far more malignant tumor: it is indeed this insecurity that, while increasing the risks, lowers the expected enterprise profitability, slows down investments and thus prevents the national industry from developing and reaching its optimum dimensions.

It may be objected that the industrialists are helpless in the face of a general state of insecurity to which the state itself is quite tempted to surrender. Perhaps this may be the only problem caused by the war. However, to the extent to which the war influences above all decisions related to future investments, the very notion of insecurity must be translated into economic terms and, somehow, be included in any development or reconstruction "plan" or project. We shall discuss later the means for dealing with this political phenomenon with the help of economic variables.

Nevertheless, it is already possible to note that political instability in Lebanon, insecurity being no more than one of its manifestations, is contributing in a frequently specific manner to the aggravation of the problems facing our industrialists. Thus, financing problems, about which a number of industrialists have complained, may be directly attributed to the instability created by the war. In fact, henceforth access to the financial market will represent a major problem facing one-third of the surveyed enterprises. Naturally, it is understandable for the banking sector to hesitate before making loans to industry after the sad trial of the war years. The national development "plans" will have to take this fact into consideration, while noting that investment banks specializing in medium and long-term loans have, in the final account, very limited means and, regardless of their good intentions, account for no more than a very small share of the national money market.

What About Smuggling?

Finally, we are pleased to note that no more than 14 percent of the surveyed companies consider the effects of smuggling among their problems. Generally speaking, this applies to enterprises most severely affected by the war (also, in frequent cases, the least prosperous prewar enterprises). Actually, this should not surprise us: efficient enterprises with foreign markets are, by definition, viable and even prosperous under a free trade system. It is indeed inconceivable that the future of properly managed enterprises could be seriously compromised as a result of a generally speaking limited lowering of customs tariffs, the more so since, quite frequently, the enterprise might even benefit from the existence of illegal ports, or lowered "customs rates" (not always totally eliminated, as one would like to believe) imposed on imported raw materials. However, we shall not undertake here the study of the advantages which free trade bring to the industrial sector, as this topic goes beyond the framework of this article.

In the final account, it becomes clear that no more than a certain percentage of the problems faced by our industry could be directly attributed to the two-year war. In fact, a substantial number of problems--manpower, technology, marketing and financing--would have probably appeared even without a war even though, perhaps, in a less dramatic manner.

Nevertheless, today our industry has reached a turning point and has been given the opportunity (or the need) to renew itself. This will require the joint efforts of Lebanese industrialists and political decision makers who, together, will have to provide the national industry with the orientation required by the new situation: the growing competition in the Middle East, the decline of traditional industries, and the emergence of technologies and new products, some of which may even belong to the post-petroleum age. This is yet one more challenge which, with its great flexibility, the national economy will eventually accept.

[28 Jan 81, p 2]

[Text] In his two articles published on Monday and Tuesday, 26 and 27 January, Dr Andre Chaib, professor of economics at the American University in Beirut, described the origins and development of the industrial sector in Lebanon and the

problems it must face today, problems the least of which, unquestionably, is not the current state of insecurity in Lebanon.

What will the future be like? In his third and final article, the author of this series singles out the encouraging prospects providing, however, that the Lebanese industrialists undertake a serious organizational effort.

The future of Lebanon's industry may be considered with optimism for several reasons. This is, first and above all, because, despite a number of difficulties, our plants have continued to operate since 1976 and, despite everything, are succeeding in marketing their goods domestically and abroad. Another reason is that a number of details confirm the fact that our industry is managing not only to survive but to preserve an attitude of stubborn and lucid optimism as regards its future.

Thus, for example, 75 percent of the investigated enterprises feel that they belong to sectors with a future; 80 percent of them believe that their prices are competitive on the international market; 60 percent of these same industrialists have faith in the future of their enterprises to the point of stating that if they had to redo everything all over again today, they would invest in the same plants they own; finally, the factual output of 65 percent of the surveyed enterprises exceeds the 1974 level.

Generally speaking, 50 percent of these enterprises have an optimistic view of the future of Lebanese industry; 25 percent of them relate this optimism to an eventual restoration of political stability; finally, 25 percent feel optimistic. Asked to discuss in more specific terms the view of the future of their companies, 65 percent of our industrialists expressed their optimism; 15 percent gave as a prerequisite for their optimism the resumption of political stability in Lebanon; finally, a 20 percent minority declared itself pessimistic.

Other factors also well confirm this upsurge of optimism in our industry: the continuing growth of our exports and increased industrial investments in recent years: in 1979 alone 736 million pounds were invested. An even better fact is that 74 percent of the surveyed enterprises claimed that they are operating at no less than 50 percent of capacity. This is not a negligible fact, bearing in mind that even before the war this rate of utilization had never been really high in Lebanon.

Our industrialists were also questioned on the subject of their investments over the past 5 years and on their future projects: 70 percent stated that they had increased their installed capacity since 1975; 65 percent claimed to be planning major future investments.

Inquestionably, it is not our role to reduce this study to the praise of tenacious industrialists. However, we must note in all these details the signs of a justifiable optimism and the justification of many hopes. We must also point out that our industry is continuing to benefit from a number of well-known advantages such as, for example, that of dealing with a government which is, all in all, conciliatory (for nearly 70 percent of the surveyed enterprises taxes are no major inconvenience), a government which is also understanding even though, alas, powerless.

Nevertheless, in order for our industry to have a future worthy of its accomplishments and determination it showed yesterday and is showing today, it must seriously consider the problems and even the fact that it must be helped to develop as of now the shape it will have 10 or 20 years hence.

It seems difficult to conceive of a solution to the problem of the scarcity of skilled industrial personnel without the consideration that substantial wage increases will have to be granted to skilled workers, technicians and executives. In a very large number of cases, the resulting increased production costs may seem prohibitive. Actually, had this not been the case, our industrialists would have expended great efforts to bring back such workers and technicians who had gravitated toward the sun and the petrodollars of the Gulf.

However, if all these engineers and workers, scattered throughout the Arab Peninsula, were to be given their proper responsibilities within the national industry, and if this human capital, today sentenced to exile, were to be recovered, the possible gains in terms of productivity, profitability, durability and innovations could be considerable both in terms of our industry and the overall Lebanese economy and society. In order to favor such a transition, one could easily imagine a system of public aid to field cadres and personnel recovered by our enterprises. For example, the state could compensate for a certain percentage (or the entire amount) of wage differences.

This kind of intervention would be perfectly justified considering the benefits which would accrue to the overall national economy from such a properly organized return. The cost of such an undertaking may be used as a reason for denying all possible benefits. A sound consideration of this matter in relative terms, however, in any case, would prove such costs to represent a minimal share of the national product or the state budget. In the light of the thousands of unproductive expenditures of our budget, which is a hymn to waste, and of the generous increases in the salaries of officials or other people whose income comes from the republic and whose activities show no indication of increased productivity since the war, such expenditures should be definitely considered insignificant. Furthermore, since inflation does exist, let us, for once, use such increases for the sake of promoting real productivity and growth.

Risks and Finances

On a parallel basis with such labor subsidies, we should also consider how to make money markets more accessible to our industrialists. Asked about the possible contribution of the state to the solution of their problem, our 100 enterprises believe that it is above all on this level that the state could help them. It is obvious, in this respect, that it is exclusively to the extent to which the money markets, which are firmly structured and, furthermore, are quite effective in Lebanon, and remain closed to the industrialists for reasons having nothing to do with the intrinsic effectiveness and viability of the enterprises, that state intervention would be desirable.

In such a case the industrialists would be charged an interest lower than the market rate, but exclusively to the extent of the new risks--risks generated by the

war--which, in fact, are preventing many industrialists from obtaining "traditional" loans from commercial banks. However, the necessary amounts for such loans should be made available. Above all, we must not count on our medium and long-term credit banks whose possibilities remain very limited. If necessary, one could even conceive of a system which would enable the enterprises to obtain "traditional" loans from local banks at sufficiently high interest rates to compensate for the risks, with the state subsidizing the difference in interest rates due precisely to such risks. Obviously, this system could involve guarantees and stipulations which would take into consideration the actual profitability of the various enterprises regardless of war risks. Such subsidies could, in fact, be limited to sectors which will be considered, after suitable studies, promising, thus indirectly discouraging industries which, in the course of time, may become burdens to their owners and to the national economy.

Let us note that the newly established Investments Guarantee Institute operates within the same framework. By insuring enterprises against civil or other war risks this institute lowers risks and thus favors the industrial investments. Nevertheless, to the extent to which the advantages of such insurance outstrip the framework of the enterprise and, in fact, spread over the entire society, one may ask whether, in the final account, the insurance premiums should not be paid by society itself, i.e., that the insured enterprises should be either entirely or almost entirely freed from such payment. Here again, financing should pose no problems, the more so since the factual cost to the insurer could be greatly reduced. Furthermore, when an economy needs money to operate the money is, quite simply, printed.

On the Future of Markets

We must also think more seriously about the future of our export markets. In order to prevent the ever faster erosion of our traditional markets, we should concentrate on the new one. However, this would also require that many Lebanese industrialists abandon the dangerous way of thinking which concentrates merely on the marketing of goods today in the best marketplaces, i.e., the nearest ones. It is a fact that over 40 percent of the surveyed enterprises are convinced that possible markets may be found in Western Europe. Other markets, barely exploited, would also become open to our product should we bother to enter them. This applies to Africa, the non-Arab Middle East and the immense American continent.

However, in order to put together a serious and properly developed documentation on all such possible markets, eventual competitors and their prices, unquestionably we should seek the help of a collective agency, private or semipublic, which would become for our industrialists wishing to expand or diversify their customers a source of information and a precious adviser. Over one year ago we had formulated this suggestion in this source and elsewhere (see L'ORIENT-LE JOUR, 2 January 1980). Alas, the economic questions raised were not seriously considered by the political decision makers.

Such an agency, which could be named the National Center for Industry and Exports, would also engage in economic studies affecting Lebanon's industry and consider

means to facilitate access to foreign markets for Lebanese products. For example, it could involve in this project our emigres living in Africa, America and Australia. Or else, it would try to resolve transport problems which many industrialists are facing today.

Finally, such an agency could be used as a national think tank for the future of Lebanon's industry whose structures, sooner or later, will have to change. Many products which we were successfully exporting 10 years ago are already facing the competition of the very countries which imported them in the past.

Furthermore, difficulties frequently attributed to the "situation" prevailing in some sectors--the leather industry, some textiles and some food industries--clearly prove that our industry will have to develop new structures soon. Questioned on the possible new orientations, a substantial number of industrialists have suggested the expansion of the construction materials and chemical industries.

In any case, it is obvious that the Lebanese industry will end up finding its own guideline for the future once all the problems it faces--markets, security, financing, labor--which are all intimately interwoven, will have been raised, considered, understood and, finally, resolved through extensive joint efforts.

In the absence of a strong state one may ask whether those who hold the effective power in the various parts of Lebanon should not consider themselves the regional problems facing their industries and the means to be used to advance their harmonious operation while increasing the flexibility of production factors and produced goods. Finally, whatever political formula Lebanon may adopt in the 1980s or 1990s, such a formula should take into consideration the basic unity of Lebanese industry and the innumerable relations which must not be broken among the fragmented markets of our economy. One must also realize that it is first and above all through the economy that one day Lebanon will be able to regain real and durable unity.

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CSO: 4800

LEBANON

AGREEMENT WITH FAO SIGNED

Beirut L'ORIENT-LE JOUR in French 27 Jan 81 p 11

[Report: "Agreement on FAO Aid to Lebanon Initialed"]

[Text] Yesterday, 'Abd al-Rahman al-Labbani, minister of labor and social affairs and chairman of the Higher Aid Committee, and Edouard Saouma, director general of the FAO signed an agreement protocol according to which the FAO will grant the Lebanese government \$140,000 in fertilizers to be distributed among the small farmers who were victims of disasters. The ceremony was attended by Camille Kobeh, director general of cooperatives, Mehdi Sadek, director general of the Social Development Office, and Axel Baille, who represents the FAO in Lebanon.

This donation may be added to those previously granted by Mr Saouma, in behalf of the FAO, in the past 3 years, consisting of seeds, fertilizers and other items totaling 10 million Lebanese pounds, and which represent a working capital managed by the National Union for Cooperative Credit, which grants loans to the small farmers.

On this occasion, Edouard Saouma stated to the minister of labor and social affairs that the present gift is within the framework of the continuing aid which the FAO grants to small farmers victims of disasters in Lebanon, with a view to improving their living and working conditions and to help them to resume their rural and farming activities.

Furthermore, Saouma used the occasion to describe to the minister of labor and social affairs the general features of the program for technical cooperation and aid which the FAO is implementing in Lebanon together with the Ministry of Agriculture and the other concerned departments, with a view to enhancing agricultural resources and the benefits accruing to the rural population.

The same morning, Mr Saouma had already met with Salim al-Jamil, minister of housing and cooperatives, with whom he had also discussed FAO aid to the Lebanese cooperative movement aiding the small farmers.

In this respect, FAO aid has contributed to preserving intact the productive potential of the cooperatives and of their financial and population structures in a particularly difficult period experienced by the country.

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BRIEFS

CEMENT PRODUCTION--Sources in the Planning and Supervision Directorate in the Office of Secretary of Heavy Industries indicate that operating tests of the Labda cement works, whose production capacity is 1 million tons a year, have already begun. The same sources add that the production of cement works in Libya amounted to 1,900,922 tons last year (1980), an increase of 314,000 tons compared with 1979. In addition, production of the pipe and tile plant in 1980 amounted to 4.9 million tons. [Text] [Paris BULLETIN QUOTIDIEN DE L'AGENCE JAMAHIRIYA-PRESSE in French 25 Feb 81 p 5] 11,464

TRACTOR PRODUCTION--Last year, production of the tractor assembly plant amounted to 2,514 machines. According to sources close to the Planning Directorate under the Office of Secretary of Heavy Industry, 2,774 tractors were sold to farmers at the end of last year. Productivity of this assembly plant ranges from 3,000 to 5,000 tractors a year. Some 300 men are currently employed when one shift is operating and 500 with two. [Text] [Paris BULLETIN QUOTIDIEN DE L'AGENCE JAMAHIRIYA-PRESSE in French 25 Feb 81 p 7] 11,464

DISTRICT REORGANIZATION--The City Planning Directorate within the Office of People's Secretary for Public Services is now examining the possibility of reorganizing 13 districts in the different villages and cities of the republic in order to enable them to absorb new development projects. The districts in question are: Abou Aissa, Abou Hadi, Nalout, Ghat, Ghedames, Jamail, Syrte, Berkat, Agilat, Ragdaline, Brak, Adri and Rahebat. [Text] [Paris BULLETIN QUOTIDIEN DE L'AGENCE JAMAHIRIYA-PRESSE in French 27 Feb 81 p 2] 11,464

CSO: 4800

FISCAL PROBLEMS OF FIRMS OPERATING IN AREA REVIEWED

Sharjah AL-KHALIJ in Arabic 5, 6, 7, 8 Jan 81

[Article by Shakir al-Jawhari: "In Kuwait, AL-KHALIJ Follows up on the Gulf Company Serial"]

[5 Jan 81 p 10]

[Text] The Iraqi-Iranian war has emerged as a frustrating factor for speculators in Gulf company stocks who had laid great hopes on the Kuwaiti Council of Ministers decree of last 3 August permitting conditional transactions in these stocks on the Kuwait stock exchange as a result of which what is known as the "parallel market" was stimulated at the expense of the market for Kuwaiti company stocks, which had been suffering from a state of oppressive stagnation as a result of the shortage of liquidity the Kuwaiti market suffered from until 1980.

Big investors in the Kuwaiti market prior to the war brought greater amounts of stock in Gulf companies which had been proposed to receive permission to be transacted on the Kuwaiti stock market by virtue of the conditions the Kuwaiti Council of Ministers had approved. Their objective was to speculate in sales of these stocks when prices rose.

However, the war disrupted the balance and prices dropped instead of rising. In fact, information on the tendencies of other investors to establish new Gulf companies in 1981 made the situation worse, because the trend of demand moved toward shares in these new companies, as they were cheap in comparison with those of the old companies subjected to transaction and speculation. This has meant a state of recession with respect to old stocks, or their decline to the level of the new stock, and consequently losses for speculators. What is to be done?

At the end of last November, some big investors suddenly remembered that there were higher interests of the domestic economy which could not be damaged by the continued establishment of further Gulf corporations with similar purposes. It had become their custom not to engage in any productive activity whatever, contenting themselves with offering shares on the speculators' market, where the very persons who took the lead in getting rid of them were the people owning the charter shares, who were supposed to stay on top of the projects they had established in order to manage them in accordance with their conceptions, which had brought about their establishment.

Therefore these people committed themselves in writing not to support any Gulf company that was being established, and they set about publishing this commitment in the newspapers, accompanied by a threat by official bodies in some Gulf states that they would disclose the true nature of the speculations employed to obtain new permits, if such permits were issued.

Why this belated awakening to the higher interest? What practical results will arise?

This media step was meant to achieve the following:

First, once again moving the market in Gulf stock from the state of recession which the Iraqi-Iranian war had imposed.

Second, striving not to have new companies established, for the time being, in order to concentrate transaction activities in the stock owned by this group.

Third, exploiting the artificial receptivity to purchasing shares in the existing Gulf stocks, to sell the shares they owned in these companies before shares in new companies which they would be the first to venture to speculate in were offered.

The artificial media campaign managed to achieve some of its objectives, in fact, since the market for Gulf stock experienced an artificial popularity which led to rises in the price of this stock after small investors had become certain, through the media campaign, that new companies would not be established and that the shares they now bought would rise in price and double in a short period of time through speculation.

However, information has it that big investors who signed the commitment to boycott the new Gulf companies did not adhere to their commitment at all. At the very time they were publishing copies of their signatures of "the commitment" in the middle of the front pages of certain newspapers, they were trying to issue permits for new companies in the names of their wives or mothers. The following factors governed their behavior:

First, their commitment was not serious from the start, and was not aimed at anything more than providing better conditions for speculation, in terms of their interests.

Second, their commitment is not legally binding on anyone, including themselves. This commitment does not compel the bodies which grant permits to desist from issuing new permits, and it is not binding others who did not sign the undertaking.

Third, they cannot desist from their basic investment activity, which is to speculate in the stock market. Consequently, while they do not take part in the establishment of new companies — whose establishment process has not been suspended — they will find that they have gone outside the scope of the market!

Once again, the winds have been great enough to satisfy the hunger of the ships. This time, though, there was no need for war, since the Ministry of Trade in Kuwait could not remain in the position of an observer as long as it has had many observations concerning the principle of establishing Gulf companies from the beginning.

It seems that the ministry has decided to ride the crest of the media wave fabricated by the big investors themselves against the establishment of new Gulf companies.

Thus, when the big investors' campaign reached its peak, it was foreordained that the Ministry of Trade in Kuwait would put a limit to the process of "watching," the Gulf companies. The ministry, to this end, got in touch with account audit offices and asked them not to participate in the establishment of new Gulf companies. The ministry did not content itself with that -- rather, it also requested these offices to hand over to their owners the documents and transactions on three companies being established (which had given their commitment) which they had agreed not to boycott. These companies are the al-Abyad Cement Company, the Ra's al-Khaymah Investment Group and the mining company.

Naturally, it is not in the power of the account audit bureaus to do anything but carry out the ministry's instructions.

Here the people establishing these companies decided to consummate their establishment outside Kuwait, that is, in the state of the emirates, especially since the process of establishing these companies had made great progress, reaching the point where shares in the three companies were being offered for public subscription. Numerous transactions were made, for millions of shares and dinars.

Thus, the Kuwaiti Ministry of Trade put the Gulf company ball back in the state of the emirates' court, after the many contacts the Kuwaiti government had made with the state of the emirates had failed to regularize the process of issuing permits to establish more Gulf corporations, so that they would conform to the real features of the countries of the region. Previously, Kuwait had stipulated the issuance of a federal decree on the establishment of Gulf companies in the state of the emirates, in that Kuwait would agree that their shares could be transacted on its territory, but then it withdrew this condition since it was impossible to get agreement to it.

The question now is, can the state of the emirates handle the Gulf company ball, which Kuwait has returned to the country that owns the permits?

Here it is necessary to point to the stifling liquidity crisis which occurred 2 years before, even in the banks!

Bringing this crisis to mind now bears the character of warning of a similar crisis which could perhaps be more intense than the one which preceded it.

One of the most important causes of the previous crisis was the orientation of capital toward expanded construction at a time when there was no plan organizing that. This led to a diversion of liquidity in the local market toward iron, cement, empty buildings and banks demanding payment of instalments on loans although sufficient liquidity for this did not exist.

Now, the shift in the main market for speculation in Gulf company shares to the market in the state of the emirates means that the big investors who established

these companies are absorbing liquidity from the market of the state of the emirates now that the Kuwaiti market has been closed in their faces.

Since some major investors themselves come from outside the state of the emirates, this means a disruption in the movement of liquidity into and out of the country, threatening an exceptional liquidity crisis unless the government takes the initiative of setting forth rapid, decisive rules. Perhaps the first step on the right road in this direction would be to get the local authorities in various emirates to commit themselves to stop issuing further statements on the establishment of Gulf companies, now that the latter have become an octopus threatening the economy of the area.

Why, however, did Kuwait throw the ball into the court of the state of the emirates?

[6 Ja 81 p 8]

[Text] At a time when big Kuwaiti investors have moved to the emirates to establish new Gulf companies — now that Kuwait's doors have been shut in their faces — the Kuwaiti Ministry of Trade has decided to block the sale and purchase of stocks in these companies. The first time [this happened] was in 1976. This orientation away from Kuwait, in the ministry's view, is not just an act of deception against Kuwaiti law — it is also a factor in the drain of capital from the Kuwaiti market, especially since the people speculating in Gulf stocks in this market are realizing profits which are in excess of those obtained from dealing in Kuwaiti stocks. Official Kuwaiti fears have been based on a group of facts.

First, the lack of rules to prevent founders of Gulf companies from selling the charter shares they obtained without paying the price for them as soon as the prices in the shares of the companies involved rise and before any productive activity begins. There are rules to prevent that in Kuwait, since persons establishing all companies are supposed to take charge of executing and consummating the idea which prompted them to establish the companies and not abandon it to other shareholders who have bought stock in them in the hope of obtaining an anticipated profit without having a clear enough idea of how activity progresses in the project to be able to evolve from investors to persons managing its activity.

Second, expansion in the scope of speculation in a manner increasing the demand for stocks over the volume in supply, which, in turn, supports more rapid, voluminous price rises in the Gulf company stock than in that of Kuwaiti companies. The issue requires no further description or detail: the number of persons speculating on the Gulf stock market is greater than that of people speculating on the Kuwaiti stock market, and this means greater expansion in speculating activity and the volume of the flow of funds invested, creating greater profits in shorter time.

Third, the possibility that persons investing in the speculator's market in Gulf shares will evade commitments to existing Kuwaiti laws and laws which could be issued later, although these companies are in fact to be considered Kuwaiti companies, since their founders, and the people dealing in their stock, are Kuwaitis, and they engage in investment activity in Kuwait, although they are not in any practical sense distinct from corresponding companies which are Kuwaiti (except that they are

not subjected to Kuwaiti laws and there is a conflict between the objective for which they were founded and the requirements of the interests of the Kuwaiti economy).

It has been proved, in practice, that the latter fear, specifically, was wholly founded. When the Kuwaiti Ministry of Trade and Industry issued its decree in 1976 requiring that shares of Gulf companies not be transacted on the Kuwaiti market in view of the group of factors mentioned above, the ministry was not able to carry out its decree even for a day. As soon as the decree was issued, there emerged the "parallel market," that is, the illegal secret market which is parallel to the legal, open market from the standpoint of investment activity.

Thus the Gulf companies pursued their activity on the Kuwaiti market without any restrictions, the process of concluding their deals through agents and stock brokerages continued, and many new companies were established, as if nothing had happened!

Indeed, more than that, the sales and purchase prices of stocks in the "parallel company" markets, as well as news of the transactions in which they made sales and purchases, profit levels, and so forth, were published in Kuwaiti newspapers.

In the government's view it was not reasonable that this blatant challenge should continue, and it was not reasonable, in the view of the interests of the people owning these companies, that the existence of these companies should remain illegal in form, since, in that case, no one would be able to know what matters in these companies might come to if the Kuwaiti Ministry of Trade decided to adopt deterrent measures on its own behalf. Therefore, over past years, contacts and meetings between major investors in these companies and the Kuwaiti government continued. Many meetings were held with the minister of trade, and some meetings were held with the crown prince and prime minister, Shaykh Sa'd al-'Abdallah. In fact, the prince opened some of the meetings regarding settlement of these companies' conditions.

These meetings were held under a sign of acknowledgment of reality and the need to settle this perverse situation so that the parallel market would disappear and a single market subject to the law and proceeding along with the government's directives on construction of the Kuwaiti economy would remain. However, these meetings continued for a period slightly in excess of 4 years, without any result worth mentioning from the practical standpoint, as a result of three factors.

First, the continuing establishment of further companies.

Second, an increase in the difficulties facing the Kuwaiti Ministry of Trade should it want to take decisive measures regarding existing companies, now that the sums of money invested in their shares have multiplied.

Third, the fact that the Ministry of Trade was compelled to negotiate again with a delegation representing investors in these companies and offer a concession which was important from the ministry's standpoint, requiring that the issuance or attempt to issue a decree on the establishment of Gulf companies not be stipulated, in exchange for a written undertaking signed by major investors not to establish

further companies. This is the intention, since the government wants to put a limit on the process of the constant incubation of such unproductive companies.

Therefore, no sooner did the major investors commit themselves to refrain from establishing more Gulf companies than the Ministry of Trade and Industry immediately began setting out a legal formula to rectify the conditions of existing Gulf companies, in order to eliminate the question of the parallel market so that one market would be left in which the shares of Kuwaiti and Gulf companies would be transacted together.

In order to attain this goal, the Kuwaiti Council of Ministers decided, at its session of last 3 August, to give Gulf companies permits to have their stocks dealt on the Kuwaiti stock exchange provided that the companies permitted to engage in transactions fulfil the following conditions:

1. These conditions must be applied to reviewing the grant of permits regarding Gulf companies in existence before the issuance of this decree by the Council of Ministers. Companies will be considered existing only as of the date of the convening of their first general meeting or board of directors.
2. The company should have been properly established in a Gulf country, with concern that no material portion have entered into the company's capital by means of the founders since the company's establishment or in the 3 years following that.
3. The company should belong to a country signing the Economic Agreement among Gulf States.
4. The company should be owned 100 percent by Gulf individuals or organizations, and the share of Kuwaiti stockholders in the companies permitted to conduct transactions must not have been less than 50 percent when this decree was issued.
5. A period of not less than 3 years should have elapsed since the establishment of the company.
6. The company should have areas of specialization which are in harmony with the goals for which the charter contract clearly stipulates the company was founded.
7. The capital of the company should not be less than 5 million Kuwaiti dinars upon registration in the stock exchange.
8. The company should have realized profits of not less than 100 percent per year in the past 2 years from its activities.
10. The accepted companies must commit themselves not to establish subsidiaries, that is, companies to which they contribute 25 percent or more of the capital, for a period of no less than 5 years from the date of acceptance.
11. The above conditions should not apply to applications for permission to deal in shares of Gulf companies which engage in banking or insurance activities.

12. The Ministry of Trade and Industry should confirm that these conditions have been met when the companies present applications for permits. The ministry may have the full authority to make evaluations on issuing, postponing or refusing the issuance of permits as the public interest requires.

What is the import of these conditions? What is their goal? Have the Gulf companies responded to them?

[7 Jan 81 p 10]

[Text] As soon as the Kuwaiti Council of Ministers decree was issued last 3 August giving Gulf companies permission to have their stocks transacted on the Kuwait stock exchange, if specific conditions (12 in number) were met, agents on the Gulf stock market rejoiced and gave a number of optimistic statements to Kuwaiti newspapers.

Before people read these conditions carefully, they were optimistic about their role, and the prices of Gulf company shares rose by 200 Kuwaiti fils per share, after many of the people holding these shares had refrained from selling, in anticipation that there would be a greater rise, especially if the Ministry of Trade declared the names of the Gulf companies which would be permitted to have their shares traded on the Kuwait stock exchange (no such declaration has been issued to this moment).

However, the market's upward trend soon stopped around the level of the 200-Kuwaiti-fils level, because people soon became aware of the conditions that had been set out by the Kuwaiti Council of Ministers decree, which overall were not in harmony with the orientations and interests of the major investors. These were in contradiction with the restrictions, most conspicuously the refusal to permit the establishment of more companies.

In general they did not stop at that, in spite of the commitments they had presented to the Ministry of Trade and Industry — indeed, in spite of their commitment not to take part in the establishment of new companies.

To that end, we found them procrastinating before presenting applications to the Ministry of Trade and Industry to obtain permits to transact the shares of existing companies to which the conditions set forth applied. The reason for this procrastination was the thought of what would happen to the Gulf companies they were intending to establish after these Gulf companies became legal and others illegal. Their thinking concentrated on what would happen if a parallel Gulf stock market similar to the Gulf stock market parallel to the Kuwaiti stock market were to be established alongside the Gulf stock market which was permitted to conduct transactions, or specifically, what the effect of this kind of situation would be on the prices of the shares of new companies it was intended to establish and on the shares of existing companies (which, they feared, would drop to the level of the prices of the shares of Kuwaiti companies).

The period of procrastination went on until the Ministry of Trade was prompted to urge major investors in the Gulf stock market to settle the conditions of their companies in a manner conforming to the conditions of the Council of Ministers decree.

After this urging process, just three companies came forth at the outset, followed by two other companies which applied for transaction permits. However, these companies did not comply with all the conditions and were requested to comply with the conditions that had not been met, such as those on the percentage of participation by Kuwaitis, the absence of non-Gulf participations, and others.

Naturally, rectifying these companies' conditions in a manner which would be in harmony with the conditions of the resolution would require that these companies' general assemblies meet to give their agreement to the rectification process. While this study was being written, the general assembly of the first Gulf company, the Gulf Real Estate Investment Company ('Ajman), gave its agreement to rectification of its conditions, after about 4 and a half months had passed since the Council of Ministers decree was issued.

People who are familiar with the inner workings of the market say that one or two other companies have rectified their conditions as well, in order to enter the transaction market on the Kuwait stock exchange, as an experiment, before the major investors who dominate all the Gulf companies gamble on bringing all the companies to which the conditions apply into the market.

These people add that if the experiment is a success from the point of view of the interests of major investors, other companies might also enter the stock exchange; otherwise, nothing will prevent the parallel market from remaining as it is, without conditions or restrictions of the Council of Ministers decree! In this case, these companies might determine, for their own part, even though they comply with the conditions set forth, to boycott the stock exchange which they had previously applied to enter.

If the investors take this sort of decision to boycott the stock exchange, they will thus have made the Ministry of Trade and Industry in Kuwait miss an opportunity to support the flow of activity in the Kuwait stock exchange in order to make it the core of a Gulf money market in which Gulf company stocks will be traded and which will also be converted into one of the main links in the cycle of Gulf investments in other countries of the area. In fact, they may already have given this important regional status to the brokers' offices!

In general, the boycott of the Kuwait stock exchange by Gulf companies owned by Kuwaiti investors is a fact and in this regard a declared decision is not necessary. In fact, the process of hatching more companies which are Gulf in name and Kuwaiti in financing threatens that a parallel stock exchange will be established instead of a parallel market. This is an unendurable situation from the standpoint of the party responsible for commercial and industrial planning in Kuwait and the wealth of the nation's economy, here the Ministry of Trade and Industry, especially since the ministry is hearing and seeing how the people who own these companies have not been content to ignore all the concessions the government offered them but have also recently determined to organize media campaigns aimed at fabricating an unobjective willingness to buy their companies' shares and raise their prices within the hearing and sight of the government.

I believe that we will not be outstripping events if we say that these offerings on the part of the ministry and concessions on the part of the companies have not settled the situation since the first round.

I also believe that we will not be outstripping events, either, if we say that this Kuwaiti Ministry of Trade and Industry decree will open the door wide to discussion on Gulf economic cooperation and that it might also open some internal files in one government or another and affect the purely internal conditions of some countries in the region in a manner which will have a negative effect on all the economic conditions in the entire Gulf region.

[U Jan 81 p 10]

[Text] Since the file on the Gulf corporations in Kuwait was opened, some people have taken it upon themselves to open the file on Gulf economic cooperation and coordination. In this field, one might mention that a great commotion was stirred up in 1976 over the whole length and breadth of the Arab Gulf over Kuwait's decree at that time which prohibited transactions in Gulf company shares in Kuwait. Among the accusations made against Kuwait, especially by Gulf entrepreneurs, was that it was opposed to the notion of economic cooperation.

At that time, Kuwait was not able to convey its point of view to Gulf public opinion in order to explain that it was not against Gulf economic cooperation but was against having Kuwaiti economic activities assume false identities and come into Kuwait with Gulf passports in order to proceed to sabotage the Kuwaiti economy itself by means of the illusory companies they had established, without engaging in any productive activity beyond speculating in the stock market.

At that time, Kuwait was not able to explain its point of view because the official and unofficial media in all the countries of the region were talking about Gulf security and the need for cooperation and coordination among Gulf countries in all fields, foremost among them the economic field. Thus the Gulf companies clad themselves in national and regional interests. In the face of that, it was not possible for the official media which were talking about comprehensive Gulf cooperation to describe the bad points of other forms of cooperation!

As for the unofficial media, the newspapers and magazines, they in reality basically represent only the major investors in the Gulf companies specifically; consequently they strove to sanctify in people's minds the "regional error" which holds that the Gulf corporations are the basic model for economic cooperation among the countries of the region.

Perhaps the most important factor which prevented the transmission of the Kuwaiti point of view to the Gulf mentality at that time was the fact that these companies' negative influences had not yet appeared in Kuwait and that they were not bound to appear in other Gulf countries. Indeed, to the contrary, they achieved positive results relative to the other Gulf countries in which they emerged, temporary though their positive features were.

These companies in the view of the other Gulf countries meant that Kuwaiti capital was pumped into Gulf markets which needed this capital pumped in. Bahrain was and

still is suffering from an economic crisis because of a paucity of oil exports relative to the oil environment around it; this led to a rise in the cost of living there above that in neighboring countries, although it did not have the wealth of these other countries at its disposal. The state of the emirates was and still is in its first stages of growth, and so on.

In addition to that, the process of establishing Gulf companies yields great wealth for founders from other Gulf countries; they obtain a portion of the founding stock without paying the price for it, then sell it shortly after, upon establishing other Gulf companies, just like other founders who are Kuwaitis.

Since the process of establishing Gulf corporations entails this sort of benefit for Gulf countries (pumping Kuwaiti money into these companies and obtaining founding shares), we find some Gulf countries like Bahrain codifying a law giving Bahraini citizens the right to participate in the founding of Gulf companies whose headquarters are in Bahrain, while the same law prohibits Bahraini citizens from holding shares in these companies -- that is, they do not have the right to buy shares in these companies!

In spite of the obvious weirdness of this law, anyone penetrating to the essence of its articles will find that it is logical in the utmost, because, if the goal in establishing Gulf companies in Bahrain is to pump liquidity into Bahrain from outside, people who buy shares in Gulf companies that take Bahrain as their headquarters must be non-Bahrainis; in the event the opposite occurred, the Bahraini market would not only lose the Gulf investments, it would also find itself gradually crushed as a result of Bahraini investors' tendency just to speculate in the stock market instead of establishing a firm productive base for their country's economy, as is not happening in Kuwait.

In the light of this, it seems logical for Kuwait to reject the notion of Gulf corporations for the same reason that makes these companies desirable to other Gulf states. Kuwait has a legitimate excuse for rejecting the notion of these companies: they caused the emergence of a liquidity crisis in the Kuwaiti market about a year and a half ago, and the government was able to transcend this crisis only after pumping large amounts of money into the market directly and indirectly through the Central Bank. This crisis still lasted until the middle of this year, 1980.

Although the pumping process which the Gulf companies are pursuing is done from Kuwait to the Gulf (the state of the emirates is part of this "outer world"), this liquidity does not serve the economy of countries to which it is directed, for the following reasons:

1. The typical flow of money used in stock speculation does not pass through the cycle of economic production. These funds are recorded in these companies' accounts in the state of the emirates for short periods before they go out again to take part in investment activities, perhaps in Europe or America.
2. The cycle in flow of these funds is confined to the milieu of major investors whose buying activity is directed to the outer world with the objective of

importing at a time when stimulating consumption and increasing spending in this direction requires that the incomes of ordinary persons in the country be increased.

3. We have a practical example which underlines the fact that these funds have no positive effects on the economies of the countries in whose direction the pumping process is occurring. The example is the liquidity crisis which befell the state of the emirates for a while at a time when the process of establishing Gulf companies and speculation in their stock had reached its peak.

In addition, these funds are not of help to the economies of the countries in which the Gulf companies are headquartered. The establishment of this kind of company harms the founding countries themselves more than it harms Kuwait, because Kuwait has established many productive Kuwaiti companies, which constitute proper terrain for the establishment of a productive base for the Kuwaiti economy, and the orientation of some Kuwaiti money toward speculation in stocks will not cause great damage to the Kuwaiti economy. Even if this orientation does not benefit the Kuwaiti economy, as it does not offer new additions to its existing structure, it will not destroy what does exist. In the case of the state of the emirates, however, because of its recent development the state has not been able to complete the establishment of a productive base such as that which exists in Kuwait. Consequently, the approach, from now, toward stock speculation before a strong economic base is created in the state is a luxury, especially when we realize that the money devoted to speculating in stock in Gulf companies for which the emirates constitute the headquarters will remain the property of its owners who are the citizens of other countries. Consequently, this money is destined to leave the emirates once again.

Nonetheless, the issue has not been so clearly understood by the countries of the area, in spite of the numerous contacts which have been made in this regard among the countries of the region with the aim, on the Kuwaiti government's part, of convincing other Gulf countries that such companies do not represent a desirable model of economic cooperation but rather the opposite, because they are companies which for the most part are not productive.

Kuwait has demonstrated its readiness to offer all possible facilities for Gulf company activities, if attention is given to make the companies productive and endow them with specific goals and objectives in a form which can be carried out and not establish companies for mines, for example!

In order to organize the process of establishing productive Gulf companies, the subject of economic coordination and cooperation was one of the most important matters to be dealt with in the Gulf tour the crown prince of Kuwait, Shaykh Sa'd al-'Abdallah al-Sabah, made in 1977. One of the most important economic consequences of this tour was the signing of an economic agreement between Kuwait on the one hand and each individual country he visited. Later, agreement was made among Gulf countries to consider all these agreements a single one, to be called the Gulf States Economic Agreement. This agreement permitted capital and moral and legal persons to move freely among countries signing the agreement and have ownership in them. These countries are Kuwait, the state of the emirates, Saudi Arabia, Qatar, Bahrain and Oman. Iraq did not sign this agreement.

Nonetheless, the Gulf countries did not commit themselves to holding that it was necessary that Gulf corporations be properly established and that their goals and objectives to be in harmony with the existing situation. The process of establishing companies continued to progress as it had before the signing of the agreement, which prompted the Kuwaiti Ministry of Trade to issue a decree in 1979 prohibiting transactions in Gulf company stock in Kuwait. With the issuance of this decree, contacts between the Kuwaiti Ministry of Trade and the major Kuwaiti investors in Gulf company stocks began. These were the contacts we referred to previously, which, we stated, ended with the issuance of a decree by the Kuwaiti Council of Ministers last 3 August setting the conditions for conducting transactions in Gulf company stocks on the Kuwaiti stock exchange.

However, the contacts made were not restricted to the two Kuwaiti parties alone. Indeed, the state of the emirates got in touch with the Kuwaiti government, officially this time, in the middle of this year, 1980, and asked why permission was not given to have shares in Gulf companies transacted in Kuwait, even though liquidity had been restored to its state once the crisis had passed, the rates of liquidity in Kuwait had become linked to rises, falls and fluctuations in the rate of interest on the dollar in American banks, and the process of dealing in Gulf stock no longer constituted a threat to liquidity in Kuwait.

Without venturing into details on the answer Kuwait presented, we can consider that the Kuwaiti Council of Ministers' decree was tantamount to a practical answer to this question. We can also consider the Kuwaiti Ministry of Trade's instructions to the account audit organizations to refrain from establishing new Gulf companies and return the documents on companies being established to their owners to be a more advanced practical step in this direction, one which ought to have been followed by other more decisive steps in a negative direction on the level of Kuwait and the other Gulf countries concerning the establishment of such companies.

However, it appears that it is not an insignificant matter for the possibility of following such desirable steps to reappear in view of the "weight" of the major investors in these companies, which does not just involve economics and investment'.

In the light of that, we find that the Gulf countries, instead of facing the fictitious companies, are resorting to trying to provide a desirable model for companies which will offer serious contributions along the road to development of the economy in the region. The latest serious step in this direction was establishment of the Gulf Aluminum Rolling Company, in which Iraq is participating as well as the countries signing the Gulf States Economic Agreement. This is a company which has arisen from the Gulf Industrial Investment Organization; before the company was established abundant thorough studies were prepared by experts from its parent organization and participating nations.

Is this company be just a model of cooperation among nations, each of the nations participating in it will have the right to put 49 percent of its shares up for general subscription, on condition that no subscriber's share exceed 10 percent of the capital.

However, will one company, or a number of companies of this type, be enough to play the role of guiding the Gulf economy and attaining a desirable level of Gulf co-operation in the economic field?

Perhaps this questions brings us back again to where we started, and the story of Gulf corporations and Gulf economic cooperation remains one with a beginning rather than an end.

IRAQI DIPLOMATS ALLEGEDLY CONVERTED INTO TERRORISTS BY BAGHDAD

Damascus TISHRIN in Arabic 10 Feb 8 p 8

[Editorial by Jabran Kuriyah: "The Saddam Regime: Home for Terrorism"]

[Text] Dr Jasim Hamadi al-Mashhadani, prominent nationalist Iraqi politician, member of the Liberation Front Command in Iraq, and activist in the Iraqi opposition working to save Iraq from the bloody and fascist Saddam regime, died in the city of Kuwait from the bullets of a group of killers who belong to this regime.

The assassination of Mr al-Mashhadani is a new crime to be added to the long list of murders, crimes and assassinations perpetrated by the regime of Saddam Husayn--not just within Iraq but in other countries, as well.

This is not the first time that Saddam Husayn's regime has violated Kuwaiti territory to commit crimes of murder, terrorism and sabotage.

This regime's history of crimes outside the borders of Iraq is well known in many states and among world public opinion and international circles. This history has been documented by courts in Great Britain, France, West Berlin, the Democratic Republic of Yemen and Kuwait.

This criminal activity, which has become the preferred method of the Saddam regime, has added to current diplomatic usage the terms "killer-diplomats" and "terrorists in the guise of diplomats."

For this regime has turned Iraqi diplomats into killers, terrorists and criminals--or more precisely, it has placed its killers, criminals and mercenaries in a diplomatic capacity and has sent them abroad carrying instruments of death in "diplomatic pouches" to carry out assassinations in diplomatic cars and pursue Iraqi, Palestinian and Arab liberals.

We do not believe that anyone has yet forgotten the series of crimes which the mercenaries of the Saddam Husayn regime committed against PLO representatives in various places in the world. Nor can anyone have forgotten the regime's crimes against peaceful Syrian citizens.

If the Iraqi regime believes that the assassination of an oppositionist here and a politician there will save it from its inevitable fate at the hands of the masses of people in Iraq, this belief is mistaken. For what wholesale crimes within Iraq cannot achieve, acts of assassination outside Iraq cannot achieve either.

The number of bodies of Iraqi liberals swallowed up by the waters of the Tigris River during the term of Saddam probably exceeds all the corpses swallowed up by the rivers of the world since the era of Genghis Khan.

There is no longer anyone in Iraq who is unfamiliar with the method of assassination by car and car accidents--a method which has even reached the houses of some senior officials.

The physical purges and brutal torture of the best elements of the Iraqi people carried out in the house of termination, the prisons and the concentration camps in Abu Gharib and elsewhere are well known among Iraqis.

Those who unabashedly organize the slaughter of some of the elite of the state and party leaders in Iraq on trumped-up charges and those who organize daily massacres of the best of the noble Iraqi people do not hesitate to perpetrate any crime and commit any sin whatsoever.

History provides many illustrations of the fact that rulers who are enemies of the people characteristically pursue a policy of repression and terrorism at home and a policy of aggression abroad.

However, history also shows that such rulers meet the worst possible ends, and neither instruments of terrorism, bands of killers nor criminal acts are able to save them from the day of reckoning.

The blood of the martyrs of the peoples has never been shed in vain, but has lighted the way of the struggle and has driven nail upon nail in the coffin of the criminal terrorist regimes.

The account which the masses hold with the Saddam regime will be a harsh one because it will include not only the lives of the devoted martyrs of the Iraqi people but also the defanation of the pan-Arab cause of the Arab nation and the launching of the war against the Iranian revolution on behalf of American imperialism.

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DEVELOPMENT OF BANIYAS OIL DISTRIBUTION FACILITIES DISCUSSED

Damascus TISHRIN in Arabic 10 Feb 81 p 2

[Article: "Projects to Connect Baniyas Refinery With the Marine Outlet; Oil Minister Discusses These Projects; Implementation of Installations to Remedy Pollution Being Readied Rapidly"]

[Text] Implementation of a project for a system linking the Baniyas refinery with the marine outlet will begin next month. This project, which will cost some 140 million Syrian pounds, will ensure the transport of oil products from the refinery to storage tanks in Baniyas, the forwarding of the products to storage tanks in Homs, and the transport of surplus products to marine pipelines for export.

This was announced yesterday by Minister of Oil and Natural Resources Dr 'Abd-al-Jabbar al-Dahhak. He said that this system includes remote-control electronic equipment; accurate computers to determine the quantities of oil products stored, forwarded to Homs, and exported; and other equipment. The project will be implemented by a German company and is expected to be completed by the middle of next year.

The minister explained that this system, which constitutes the heart of the project linking the refinery with the Baniyas outlet and its associated facilities, is considered one of the main parts of the project. Other parts include the following:

Storage Tanks for Oil Products

--Storage tanks for oil products including mazut [heavy fuel oil], gasoline and kerosene to be located in Baniyas and Homs. These tanks will be a capacity of 300,000 cubic meters in addition to the country's existing storage capacities. Work on the tanks will be completed during next July after which they will be ready to store oil products. The total cost of the project, which includes 17 tanks in Homs and Baniyas, will be approximately 30 million Syrian pounds. Work on the project began at the start of last year.

Marine Transport Lines for Exportation of Surplus

--Marine pipelines to transport oil products in excess of the consumption needs of the country. Implementation of this part of the project was begun early last year and will be completed during the first quarter of next year. The pipelines can be utilized to receive imported oil products in the future as well as for the exportation of surplus production. The pipelines will cost approximately 36 million Syrian pounds.

--Two tanker loading stations, one in the city of Homs to meet consumption needs in the central region and a second in Baniyas to ensure the needs of the coastal region. These stations will be set up during the current year at a cost of 4 million Syrian pounds.

--Two 7.5-megawatt electric power stations to supply the project linking the refinery with the marine outlet and its associated facilities from the general electricity grid. Construction of these stations will be completed before the end of this year at a total cost of some 5 million Syrian pounds.

A French consulting firm prepared the detailed engineering study for the various parts of this linking system at a cost of 4 million Syrian pounds.

Second Phase of the Project

The minister explained that these parts constitute the first phase of the project for the storage and transport of oil products linking the Baniyas and Homs refineries with the provinces. He said that the second phase of the project aims at increasing the oil products storage capacity through the construction of new storage tanks distributed among all the provinces in the country and insuring transport by means of pipelines to be laid between Homs and Aleppo and between Latakia and Aleppo. The project also includes utilizing the existing railroad lines and dispensing with transport by tank trucks as much as possible.

A study of this phase is currently being conducted to pave the way for beginning the implementation of the phase during the current five-year plan. After the completion of the second phase, this project will meet the country's needs for storage and transport through 1990. The study for this project was begun in 1977.

Accomplishments Toward the Establishment of Installations to Remedy Pollution

The minister of oil was asked about the measures that have been taken to build a biological reservoir to treat water polluted by oils and chemical by-products produced by the refining operations at the Baniyas refinery. He replied that the responsible technical agencies in the ministry and the refinery are currently studying bids submitted by bidding companies and it is anticipated that implementation of the project will begin during the second quarter of the current year and last about 18 months. The estimated cost of the project is 30 million Syrian pounds. The project will ensure that the polluted water and liquid wastes from the refinery are restored to a level of purity conforming to recognized international specifications prior to being released into the ocean. This will guarantee that coastal waters are not polluted and fishing resources are preserved.

Concerning the solution of the air pollution problem in the Baniyas area caused by gaseous wastes produced in the refining operations, the minister said that the ministry has asked specialized international companies to provide the information necessary to conduct a study of the best possible means to reduce the rate of air pollution and attract suitable bids preparatory to establishing the necessary projects for this purpose in the shortest possible time.

The editor feels that the project to link the refinery with the Baniyas outlet and its associated facilities and the various parts which make up this project as well as the installations to treat pollution due to liquid and gaseous by-products should all have been implemented together in coordination with the implementation of the Baniyas refinery as he has stated on more than one occasion. The delay in the implementation of these projects has increased their construction costs, especially when we realize that the refinery was completed and began trial production in late 1979. Added to this are the additional complications arising from pollution and the costs of constructing temporary installations to transport the refinery's products.

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BRIEFS

SUPREME AGRICULTURAL COUNCIL MEETS--The Supreme Agricultural Council headed by Prime Minister Dr 'Abd-al-Ra'uf al-Kasim held a meeting at 1000 yesterday morning. At the outset of the meeting, Dr al-Kasim said: "We cannot allow any obstacle of any kind whatsoever to block our way to the realization of the tremendous hopes which have been pinned on the agricultural sector. We must replace all methods which are unprofitable from the economic and productivity standpoints and we must achieve a balance between our aspirations and what we actually achieve in the agricultural field." The prime minister explained further: "In our 1981 budget, we concentrated on vital goals in our agricultural policy with the aim of achieving an economic leap which we must achieve in the agricultural sector in order to make the agricultural economy a strong material base for the real capabilities of this country. The basic aims at this time in the party and the state, aside from raising the productivity of the industrial sector, are to accomplish growth in agriculture and agricultural production, achieve complete agricultural stability by means of the coming phase and generate rapid and comprehensive development in the Syrian Arab rural areas." Following these remarks, the Agricultural Council moved on to a discussion of the subjects on its agenda. These matters included questions relating to the green belt, the setting of purchase prices for agricultural crops, study of the status of cotton growing in the country, and study of agricultural co-operatives and the measures needed to implement it. The council made a number of decisions. It was also decided to set the purchase price of cotton for producers at 320 Syrian piasters per kilogram for individual production and 325 piasters per kilogram for production by cooperatives. These prices are based on delivery to all cotton gins in the country. The meeting concluded at 1300. The Supreme Agricultural Council will continue its meetings in order to pursue the discussion of methods and processes to implement the agricultural policy, discuss the various matters pertaining to this policy and take the necessary decisions in this area. [Text] [Damascus TISHRIN in Arabic 9 Feb 81 p 1] 8591

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